[श्रीमति सुषमा स्वराज]

की सरकार को काम करना होगा ताकि सौहार्द और सद्भाव कायम हो सके, इसके साथ ही एक समन्वय समिति ऐसी बनानी होगी जोकि हिंदुस्तान के अंदर आंतरिक आतंकवाद को तोड़ने के लिए सामूहिक प्रयास कर सके। यह नहीं कि ऑपरेशन रक्षक आप पंजाब में शुरू कर दें और जो आपके बगल के पड़ौसी मुख्य मंत्री हैं, उनकी सरकारों से आप बात भी न करें। महोदय, एक कॉमन सेंस वाले आदमी को भी यह मालूम था कि ऑपरेशन रक्षक जब पंजाब में शुरू किया जाएगा तो वहां के आतंकवादी भाग-भाग कर पड़ौसी राज्यों में ये घटनाएं करेंगे और हरियाणा उसका टार्गेट बनेगा, उत्तर प्रदेश उसका टार्गेट बनेगा, लेकिन किसी मुख्य मंत्री से बात नहीं की गयी। तो मैं गृह मंत्री जी से यह कहना चाहूंगी कि आंतरिक तौर पर आप राज्य सरकारों को हथियारों से लैस करें। ए०के० 47 का मुकाबला थ्री-नॉट-थ्री से नहीं हो सकता। जैसाकि लाठर साहब कह रहे थे कि केवल 50 ए०के० 47 रायफल्स हैं हरियाणा पुलिस के पास और ये आतंकवादियों के पास थोक की दर से हैं। कैसे मुकाबला करेंगे? आप आंतरिक तौर पर समन्वय समिति बनाइए, हथियारों से अपनी राज्य सरकारों को लैस करिए, अपने सामाजिक-आर्थिक स्तर पर सुधार करिए।

अंत में महोदय मैं निवेदन करना चाहूंगी कि यह चर्चा अगर केवल चर्चा कर के हम छोड़ देंगे तो इससे कोई उपलब्धि नहीं होगी। इसलिए इस चर्चा के बाद एक ऐसा रेजोल्यूशन, ऐसा संकल्प इस सदन से जाना चाहिए जिससे पाकिस्तान की नीयत का पर्दाफाश हो, उसकी गतिविधियों का खुलासा हो तथा पूरे अंतर्राष्ट्रीय क्षेत्र के अंदर यह प्रचारित किया जाय कि हिंदुस्तान की संसद के उच्च सदन ने एक प्रस्ताव पास कर के पाकिस्तान की गतिविधियों की भर्त्सना की है, उसकी निन्दा की है। बहुत-बहुत धन्यवाद।

THE VICE-CHAIRMAN SHRI BHASKAR ANNAJI MASODKAR) : This debate will have to remain incomplete now. There is a statement to be made by the Finance Minister at 5.00 P.M.

STATEMENT BY MINISTER—

Management of the Economic Crisis

THE MINISTER OF FINANCE (SHRI MAN MOHAN SINGH) : Mr. Vice-Chairman, Sir, I rise to make a brief statement on the state of the economy.

Hon'ble Members are aware that when this Government assumed office in the last half of June this year, India faced an economic crisis of unprecedented dimesion. International confidence had collapsed and even our Non-Resident Indians were withdrawing deposits from our banks in large volumes. Access to international commercial banks was closed. Our foreign exchange reserves were at an all time low. We were close to default, on our obligations to international creditors.

The Government acted promptly by taking corrective steps to restore confidence, reestablish macro-economic stability, and set the country back on the path of sustained growth. I would like to take this opportunity to inform the House of the early results of our efforts and also of the unfinished task that lies ahead.

We have achieved our immediate objective of restoring confidence and dispelling fears of default. We are also beginning to restore macro-economic stability though a great deal more remain to be done in this area.

We must continue with efforts at consolidation of these gains, ensure containment of the fiscal deficit to reduce inflation, and restore viability to our balance of payment. We must also continue the reform process in various segments of the economy initiated by the Government as part of our medium term strategy.

Sir, I have elaborated on all these points in the Statement which I now place before this House. The Statement

also provides the details of the arrangements we have concluded with the International Monetary Fund, which I had promised to lay before the House.

Management of the Economic Crisis

Six months ago, our Government, under the leadership of Shri P. V. Narasimha Rao, assumed office in the midst of an unprecedented economic crisis. Foreign reserves had dwindled to Rs. 2600 crores barely sufficient for two weeks imports. International commercial banks were refusing to extend new credits. Large outflows were taking place from NRI deposits. Industrial growth had turned negative because of a severe import squeeze and inflation was accelerating. It looked as if might, for the first time in our histroy. default on our external payments obligations. Had this happened, the country's economic and financial system would have faced an unprecedented disruption, leading to widespread unemployment, loss of output and emergence of a higher inflationary spiral.

2. The new Government moved swiftly to the task of pulling the economy back from the brink of disaster and setting it once more on the path of rapid and sustainable growth. This called for immediate action aimed at restoring international confidence, bringing inflation under control and ensuring viability in the balance of payments. It also called for structural reforms aimed at strengthening the growth capability of the economy in the medium term. In the short space of two months we took a number of steps to achieve these objectives.

3. The exchange rate was adjustd in July to a new level which would be credible and would also ensure competitiveness of exports without the need for large export subsidies. This was accompanied by major changes in trade policy strengthening incentives to exporters and moving away from the system of import control through licensing to a system where imports would be more automatically linked to export performance through the mechanism of Exim scrips.

4. We moved decisively to reverse the trend of rising fiscal deficits which has plagued our economy for several years. These deficits are the root cause of inflation, and are also responsible for our persistent balance of payments deficits. the Budget for 1991-92 reduces the fiscal deficit from 8.4% of GDP in the Revised Estimates for 1990-91 to no more than 6.5% in 1991-92. This was made possible by a substantial effort at mobilising resources combined with a major efforts at expenditure restraint. Export subsidies were abolished, fertiliser subsidy was reduced and defence expenditure was restrained.

5. Monetary policy was also tightened reflecting the urgent need to counter inflationary pressures in the economy.

6. These measures of short term economic management were accompanied by far reaching structural reforms in the area of industrial policy aimed at enhancing noductivity and strengthening competitprness in our industrial sector and promoting an employment oriented pattern of industrialisation. The policy towards foreign investment was restruetured to attract foreign investment especially in priority areas including critical infrastructure sectors such as power.

7. These measures are expected to position in due course but their full effect will not be felt immediately. In the medium term, the new trade and industrial policy will increase the competitivenes of our industry, leading to a much more vigorous export performance, which alone can provide a lasting solution to our balance of payments problem. In the short run however we had no option but to find additional financing to fill the substantial financing gap in our balance of payments. Imports had already been severly squeezed and this had hurt industrial production, exports as well as employment. Without additional financing it would have been necessary to squeeze import still further, This would undoubtedly have deepened the industrial recession and increased unemployment. It would also have created serious shortages which would have made it impossible to control inflation.

8. In this back ground Government decided to mobilise additional external financing to provide temporary support to the balance of payments while giving time for macro-management and structural reforms to yield results. The only sources from which substantial additional financial resources could be mobilised were the International Monetary Fund, the World Bank, the Asian Development Bank and also bilateral donors especially Japan.

9. The Government negotiated a stand by arrangement with the IMF for $ 2.2 billion (over 20 month period). There has been some concern about the conditionalities associated with stand by arrangement with the IMF. I had assured Honourable Members that I would lay the Letter of Intent sent to the IMF with our request. This letter is annexed to this statement. I hope Honourable Members will be reassured that the contents of the letter are no more than an articulation of our own programme of crisis management and medium term reform, which was presented to Parliament earlier.

10. Our immediate objective was to restore international confidence. I hope all Honourable Members will agree that this has been achieved.

— Foreign exchange reserves have increased from Rs. 2600 crores ($ 1.3 billion) when we assumed office to over Rs. 8000 crores ($ 3.1 billion).

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– We have also redeemed the RBI gold ($ 400 million) which was earlier pledged abroad and the SBI gold ($ 200 million) which was sold with a repurchase option.

– The net outflow from NRI foreign currency deposits, which was running at the rate of $ 335 million per month in April-June has now ceased.

– The arrangements with the IMF and other multilateral institutions have sent a message of confidence to the international community. Our access to commercial borrowing is being restored.

– The rise in foreign exchange reserves has made it possible to relax the restrictions on imports which had to be imposed by the Reserve Bank of India. This will help exports and industrial production and will also alleviate shortages.

Thus the earlier perception of financial collapse imminent default has been overcome. Confidence has been restored.

11. With restoration of confidence, attention must now turn to the control of inflation as the primary objective of short term economic management. Inflation was accelerating alarmingly when the Government took office and reached a peak level of 16.7% in August 1991. The rate of inflation has declined somewhat since then to 13 7% by end November. This is still far too high.

12. The key to controlling inflation lies in controlling the Budget deficit. There has been a problem in the first half of the year because the severe import squeeze led to a drop in customs revenues below targets. However customs revenues are expected to pick up in the remaining months of the year as import restrictions are relaxed. Higher collections on excise and income-tax will offset part of the losses. We have also enforced cuts in expenditure to keep it below the Budget figure. We shall not allow additional expenditure through supplementary demands for any but the most urgent and unavoidable cases. We shall take whatever additional measures which may be considered necessary to contain the fiscal deficit this year to 6.5% of GDP. Thus determined efforts will be made to ensure that the fiscal correction envisaged in the Budget will take full effect in the remaining months. This will help in moderating inflation.

13. Government also proposes to use supply management in critical commodities to bring down prices. The Food Corporation of India have been instructed to off load wheat on the open market with a view to dampen prices. The improvement in reserves also enables us to import edible oils to control prices of this key commodity. STC has already been instructed to purchase additional quantities of edible oils. State Governments are also being allowed direct import of edible oils for supply to the PDS. The Government will crack down on any unscrupulous elements in the trade who create artificial shortages.

14. As domestic inflation is brought under control, I expect a strong pick up in exports, which is essential for effective management of the balance of payments. Reduction in inflation will also enable an early relaxation in monetary policy and reduction in interest rates which in turn will help industrial production.

15. Turning to the medium term objective of putting the economy back on a path of rapid growth, the strategy for this will be fully spelt out in the Eighth Plan which is currently being prepared. However some critical issues are easily identified.

16. The first issue relates to the fiscal deficit. The process of fiscal correction has to be continued further in 1992-93 and beyond if inflation is to be brought under control and the balance of payments stabilised. We should therefore aim to reduce the fiscal deficit to 5% of GDP next year.

17. The burden of achieving this reduction in fiscal deficit will fall heavily on the expenditure side. I had indicated in my Budget Speech that there was an urgent need to restructure and rationalise our tax system. This will definity yield higher overall buoyancy in tax revenues, but it will not achieve the objective of lower fiscal deficit unless it is accompained by drastic pruning of Government expenditure.

18. Maintenance of fiscal discipline also means that Plan expenditure cannot depend, as heavily as in the past, on ever-increasing budget support for the Plan. In future the ability to finance Plan expenditure will depend critically upon the internal resources generated by the public sector. This in turn draws attention to the importance of efficiency in the public sector and also of economic pricing. Failures on either front will only mean an erosion of resources and an inability to invest. Nor can the budget afford a continual drain on account of perennially loss making public sector units. Such losses are only preventing us from investing our resources where they are most needed such as in power, in agriculture, rural development, poverty alleviation, education and healthy, control of environmental degradation and where acute scarcities are already evident.

19. The process of structural reform, initiated this year, represents only a beginning. We have to carry the process further if we want to reap the full benefits. The trade policy reform for example needs to be supplemented by further steps to reduce our customs tariff levels, which are far too high for industrial competitiveness and for promoting a more labour intensive pattern of industrial development. Extensive reforms are also needed in the financial sector so that it continues to be an effective instrument of achieving our social and economic objectives. The Committee on the Financial System has recently submitted its report on financial sector reform and its recommendations are being considered by the Government. A copy of the report is being laid on the Table of the House tomorrow. The present regulations under FERA also need a comprehensive review. We need to have a fresh look at certain restrictive provisions, which may have been appropriate 20 years ago, but which are out of place in today's fast changing conditions governing international business. There is also an urgent need for the reform of capital markets so as to enhance their efficiency and effectiveness for mobilising and allocating national savings. The Government intends to pursue these issues in the months ahead.

20. The decade of the nineties will be a decade of scarce resources both domestically and externally. But we are determined to pursue with renewed vigour the goals of a rapidly expanding economy, a socially just and technologically advanced self-reliant society. However, we can achieve our ambitious developmental goals only if we can adjust effectively to evolving circumstances. Scarcity of resources must be reflected in a premium on efficiency, whether in the public sector or in the private sector. That must be the watchword of economic policy in the years ahead. There must be an all round recognition that a higher standard of living can be ensured only on the basis of rising productivity and there are no short cuts to it. This is the only secure means to generate expanding levels of productive employment which are needed to meet the requirements of our increasing labour force.

21. Greater efficiency and competitiveness will also help us to deal with scarcity of external resources. It will provide the basis for a successful export effort, which alone can provide a credible guarantee for being able to finance the imports we need without becoming excessively dependent on external assistance. India's economy has tremendous strengths and our agriculture as well as our industry can compete effectively in world markets provided they have the right policy environment and infrastructure support.

22. I am aware that apprehensions have been expressed that the new economic policies may have adverse consequences for labour especially in the public sector. I would like to assure Honourable Members that fears of large scale unemployment and closures resulting from these policies are wholly unfounded. On the contrary, we envisage that these policies will lead to greater dynamism in both the public and the private sectors and a larger growth in total employment. As far as the public sector is concerned, I have no doubt that the total impact of these reforms will be to strengthen the public sector and increase its efficiency. The recent provision enabling the Government to refer sick public sector companies to the BIFR provides an objective method of dealing with sickness including thorough examination of the scope for rehabilitation. For dealing with problems of patently unviable enterprises Government propose to establish a National Renewal Fund to provide adequately for compensation and other form of rehabilitation and retraining for workers. Our Government is fully committed to protecting all the legitimate interests of labour and to further strengthening of poverty alleviation programmes. We shall seek to evolve a broad national consensus to deal with the difficult problems of transition to a more dynamic economy.

23. The path of adjustment and reform is not easy. There are many uncertainties in the international economic environment and there are bound to be difficulties and even temporary set backs on the way. However, these difficulties can be overcome through perseverance and dedication. India's economy has the potential to regain the high rate of growth achieved in the decade of the eighties and even to surpass it provided we take determined steps now to tackle the challenges before us. I seek the support of all Honourable Members in our efforts towards this common goal.

ANNEXURE TO THE STATEMENT BY THE FINANCE MINISTER IN PARLIAMENT ON 16TH DECEMBER, 1991

New Delhi, India
August 27, 1991

Dear Mr. Camdessus,

The attached Memorandum on Economic Policies sets out the economic pro-

[Shri Manmohan Singh]

gram of the Government of India for the period 1991/92—1992/93 in support of this programme, the Government requests an 18-month stand-by arrangement in an smount effuiv ent to SDR 1,656 million. The Government also intends shortly to request an additional purchase under Section V of the decision on the compensatory and contingency financing facility (CCFF) with respect to any remaining excess in oil import costs or shortfall in merchandise and remittance earnings for the shortfall year that ended July 31, 1991. At a later stage, the Government intends to enter into discussions on a comprehansive medium-term structural adjustment programme, supported by an arrangement under the extended Fund facility.

The following quarterly performance criteria for 1991/92 are proposed to monitar progress under the programme (Table 1) ; (a) ceiling on the ovrall borrowing requirement of the Union Government ; (b) ceilings on the net domestic assets (NDA) of the Reserve Bank of India (RBI); (c) a subceiling on RBI credit to the Union Government and (d) floors on net official international reserves. Indicative magnitudes of these variables for 1992/93 are also proposed and, at the time of the first review, quarterly performance criteria for 1992/93 will be established. During the course of the programme, the Government will refrain from imposing new or intensifying existing restrictions on payments and tansfers for current international transactions, or introducing or modifying multiple currency practices, or concluding bilateral payments arrangements with Fund members inconsistent with Article VIII, or imposing new or intensifying existing import restrictions for balance of payments reasons.

These reviews of the program will be conducted. The conclusion of the first review, which is to be completed by March, 31, 1992, will depend *inter alia* on the reaching of understandings on the 1992/93 budget, on the establishment of quarterly proformance criteria for the reminder of the program period as well as understandings on : (i) the formulation of a program for tax reform, including concrete measures proposed for the 1992/93 budget and a timetable of action for the medium term; and (ii) the introduction of a detailed tracking system for all categories of expenditures and a system of quarterly expenditure reviews. The second and third reviews of the program will be completed by September 30, 1992 and March, 31 1993 respectively.

The Government of India believes that the polices set forth in the Memorandum are adeuate to achieve the objectives of the program, but will take any additional measures appropriate for this purpose. In addition, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

Sincerely yours,

Manmohan Singh,
Minister of Finance

Attachment

Mr. Michel Camdessur
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

MEMORANDUM ON ECONOMIC POLICIES FOR *1991/92– 1992/93*

1. The new Government that took office on June, 21, 1991 inherited an economy in deep crisis. The balance of payments situation was precarious, with reserves at a low level and the weakening of international confidence having resulted in a sharp decline in capital inflows through commercial borrowing and non-resident deposits. Inflation had reached double digits, hurting most the poorer sections of our society; and there were signs that economic growth had begun to show somewhat as the shortages of imports and political uncetainty began to affect production and investment. The origins of these problems are directly traceable to large and persistent macro economic imbalances, most notably the unsustainably large fiscal deficits, and to the low productivity of past investments, The crisis in the Middle East had exacerbated the situation by contributing to a higher oil import bill in 1990/91 and the temporary loss of export markets and remittance earnings.

2. The new Government recognizing that there was no time to lose, immediately adopted a number of stablizations measures that were designed to restore internal and external confidence. Thus monetary policy was tightened further through increases in interest rates, the exchange rate of the rupee was adjusted by 18.7 percent, and a major simplification and liberlization of the trade system was anounced. It is the Government's intention, as announced in the Budget speech to Parliament on July 24, 1991 to complement these initial measures by a comprehensive program of economic adjustment. The centerpiece of the economic strategy will be a substantial fiscal correction in the reminder of

the current fiscal year and in 1992-93, to be followed by continued fiscal consolidation thereafter. The reduction in fiscal isbalances will be supported by reforms in economic policy that zre essentriation impart a new element of dynamism to growth processes in the economy. The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degee than in the past, to improve the performance and rationalize the scope of the public sector, and to reform and modern financialthzni sector so that it can more efficiently serve the needs of the econom. During the inevitable period of transition, it is the Government's firm intention that the poorest soctions of siciety are protected to the maximum exten possible from the costs of adjustment.

3. Key macroeconomic objectives (Table 2) will be (i) economic growth in the range of3-3 1/2 percent in 1991/92 followed by a gradual recovery in 1992-93; (ii)on inflation rate of no more than 9 percent by end-1991/92 and no more than 6 percent by end-1992-93; indeed, the Government will strive fo an even more rfipid reduction in)inflation duling the course of 1991/92; and (iii) an easing of the preent payments situation and a rebuidling of gross international reserves from the extremely low level of about three weeks of impoits at end July to over 1 1/2 months by the end of 1992-93. In partiWlar, there isanurgent need to rebuild foreign exchange reserves from their current critically low level (£1$3 billion) to about £)2$2 billion by end 1991-92.

4. Taking account of the sizable new investments and related imports that will be needed to support the restructuring of the economy, the external curren account is targeted to decline from about 3-1/2 per cent of GDP in 1990-91 to about 2-1/2 per cent of GDP in 1991-92 and 1992/93.3 In order to provide room for an expansion in private investment to take advantage of the new opportunities created by the structural reforms, and to allow for a likely temporary decline in the private savings ration the reduction in the public sector deficit, which will initially be brought about by a reduction in the fiscal deficit of the Central Government, will be larger than the adjustment on the external current account.

Fiscal policy

5. Our medium-term objectve is to progressively reduce the overall public sector deficit from an estimated 12-1/2 percent of GDP in 1990/91 to about 7 percent of GDP in the mid-1990s, a level that we judge to be sonsistent with external viability and thegoal of ensuring adequate private sector resources to reapond dynamically to the opportunities creatd by the structural reforms. In line with this objective, we aim to rduce the Union Government deficit4 to 6.5 percent of GDP in 1991/92 and 5 percent in 1992-93, which will include a substransfers to the rest of the public sectet tantial decline in Union Government net most notably to central pablic enterprises.

6. The interaim budget presented to Parliament ih Marhc 1991 aimed fcr a deficit of abot 6u5 percent of GDP, but a number of the measures needed to attain this target were not formulated. Consequently, the postponement of the regular budget has made fiscal adjustment in 1991-92 even more difficult because almost four months of the financial year have elapased without a comprehensive fiscal correction effort. The required adjustment is about 2-1/2 perecentag points of GDP. We expect a swing from deficit to surplus in the accounts of the Oil Coordionation Committee as a result of higher domestic petroleum prices to contribute about 0.4 percentage points of GDP. About half of the remaining adjustment will be achieved by lowering expenditures and about half from higher tax and non-tax revenues.

7. Total expenditures and net lending are targeted at a little over 19 percent of GDP in 1991/92– a decline of about one percentage point. The bulk of the savings are to be achieved from lower exenditures on subsidis, mcdernation in defence spending, cuts in transfers to public eterprises and restraint on other current and capital spending. Cash export subsidis on new shipments were elimnated with effect from July 3, 1971; fertilizer prices were raised by 30 percent in August (with special arrangements to cushion the impact on small and margina farmers) ; the subsidy on sugar was eliminated by raising the issue price under the public distribution system by about 16 percent; and subsidis on foodgrains will be held broadly unchanged as a share of GDP. In all , these measures will reduce the major subsidy payments

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1 *According to the IMF definition i.e., including SDR holdings and with gold valued at SDR* 35 *per ounce.*

! *These targets refer to the IMF definition of the external curren) account. According to the official Indian definition, the external current account would decline from* 2.5 *percent of GDP in* 1990/91 *to about* 2.1 *percent in* 1991-92 *and* 2,0 *percent in* 1992/93.

! *Define to include the Union Government the Oil cAordination Committee (OCC) States Union Territories and internal and extrbudgetary reskjces of Central and State enterprises for financing their capital expenditure.*

! *Including the balance in the accounts of the Oil Coordination Committee.*

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from 1.9 percent of GDP in 1990/91 to 1.5 percent of GDP in 1991/92 on a full-year basis, the savings will be considerably greater (about 1 percent of GDP). Budgetary support to Central public enterprises is budgeted to decline from 1.5% of GDP in 1990/91 to 1.2 percent of GDP in 1991/92. Two considerations will guide our approach to expenditure policy. First, no area of government spending should be exempt from scrutiny in the effort to achieve fiscal correction. Second, the benefits of the recent exchange rate adjustment should not be eroded by inflation. At the level of the departments, no additional budgetary provision has been made for cost-of-living increases ("dearness allowance"); any increases will have to be financed from savings on departments other expenditures.

8. During the remainder of the financial year, there will be net additions to expenditures through supplementary appropriations, other than those supported by matching savings or additional receipts. Beyond this, we plan to have strengthened expenditure monitoring and control procedures in place by the time the 1992/93 budget is presented to Parliament.

9. Total revenue as a share of GDP is targeted to rise by over one percentage point (to about 12-1/2 percent) in 1991/92. Additional tax measures with an estimated gross revenue yield equivalent to 0·5 percent of GDP have been adopted in the 1991/92 budget. Important new measures include a 5 percentage point increase in the corporate tax rate; a reduction in generous depreciation allowances that have tended to encourage capital—intensive methods of production; a tax on the gross interest receipts of banks; and increases in excise duties, especially for consumer durables and other products that are purchased primarily by the affluent sections of society. At the same time, we have taken some intial steps to rationalize the structure of import tariffs and to broaden the base and strengthen the collection of direct taxes. The *ad valorem* rate of basic plus auxiliary customs duties has been reduced to a maximum of 150 percent; many of the increases in auxiliary customs duties introduced in December 1990 have been partially or fully rolled back; and rates of import duty on general capital goods and their components have been reduced by 5 percentage points (to arrange of 65—80 percent). To strengthen tax collection, the system of deduction at source is being extended to cover interest income, commissions, and withdrawls from the National Savings Scheme; and a major loophole in the wealth tax has been plugged. With regard to non-tax receipts, Rs. 25 billion (0·4 percent of GDP) will be generated from the planned sale to mutual funds of shares in a number of public enterprises (paragraph 30.

10. In order to ensure that the objective of reducing the fiscal deficit of the Central Government to 6·5 percent of GDP in 1991/92 is achieved, notwithstanding any unanticipated adverse developments during the course of the year, the Government intends to take additional measures, on both the revenue and expenditure sides, resulting in an estimated adjustment of Rs. 20 billion (0·3 percent of GDP). These additional measures will be implemented in stages, in the light of budgetary developments, and will be in place by December 31, 1991. The nature of the additional measures will be in keeping with the Government's policy of achieving a sustainable fiscal deficit reduction.

11. Our target for reducing the fiscal deficit of the Union Government to 5 percent of GDP in 1992/93 is an ambitious one, but we are determined to take all possible measures to achieve this objective. Reduction of the fiscal deficit would yield desired results only when the method of bringing about such reduction is in harmony with reforms in economic policy and economic management. We intend, therefore, to formulate policy proposals in a number of areas. We intend to initiate a process of comprehensive taxreform with the object of broadening the base of taxation, reducing levels of and dispersion in import duties, improving compliance and modernizing the entire system of tax administration. We will take a fresh look at the whole area of expenditure, and no major category should be exempt from scrutiny. Particular emphasis would be given to transfers and loans to public enterprises. The aim is to tighten their budget constraint and improve their efficiency and viability. We hope that norms of fiscal discipline being set by the Central Covernment would find acceptance by the State Governments as well. There is need for further rationalization and reduction of subsidies. Our aim should be to move to a more objective system of administered prices, as indicated in paragraph 16, that takes into account world market developments and domestic supply conditions. We would have a major thrust for a more efficient expenditure control system. With this end in view, a thorough review of the existing system will be undertaken to remove existing deficiencies and to significantly strengthen its effectiveness. Thus, fiscal adjustment in 1992/93 will not only be of a substantial magnitude, but will also be anchored to measures and policies that would have a sustainable impact on future fiscal consolidation.

12. In consonance with the fiscal consolidation of the Union Government, it is our hope that the State Governments will move in a similar direction to correct their fiscal imbalances. We will encourage them to take steps to improve their fiscal performance and streamline the working of their enterprises. In particular, renewed efforts will be made to address the financial difficulties of the State Electricity Boards through imporoved efficiency and a rationalized tariff structure. This would also enable them to ensure prompt payment of dues to central public sector undertakings, especially the power generation companies. Our overall strategy for the central public enterprises is outlined in paragraph 29. As a result of these efforts to improve efficiency and profitability, we expect the internal resource generation of the central public sector enterprises to improve significantly in 1991-92. This will permit a reduction in budget support even while their capital spending is expected to increase. The aggregate deficit of all central public enterprices is projected to fall from 3-1/2 percent of GDP in 1990-91 to 3 percent in 1991-92. As part of our endeavour to introduce a hard budget constraint for the enterprises, no increase in budget support [1]during 1991-92 beyond the budget figure will be considered, barring exceptional circumstances where matching savings would be found.

Monetary Policy

13. A restrictive monetary policy will be pursued in order to reduce inflationary pressures and support the targeted balance of payments improvement. Such a policy, in conjunction with the lowering of the public sector's claims on resources, is both an essential corollary of exchange rate stability and the only way to achieve a lasting reduction in interest rates. Monetary policy has already been tightened considerably during 1991. Thus, in April a number of interest rates were increased, the incremental nonfood credit-deposit ratio was lowered, and an additional 10 percent cash reserve requirement was imposed on increases in deposits. A further across-the board increase of one percentage point in deposit interest rates was implemented in July, and the minimum loan rate for nonpreferred credits was also raised from 17 percent to 18-1/2 percent. For 1991/92, broad money (M3) growth of 13 percent has been targeted, consistent with the output and inflation targets. Taking account of the impact of the new incremental cash reserve requirement, reserve money has been targeted to rise by 5 1/2 percent. A further slow down in the growth of broad and reserve money (to 11-12 percent) will be sought in 1992/93. The monetary programme for 1991/92 specifies quarterly ceilings on the net domestic assets (NDA) of the Reserve Bank of India (RBI) as well as on net RBI credit to the Union Covernment (Table 1). The projected NDA levels are consistent with a targeted improvement of about $1 billion in gross official foreign exchange reserves between end-June 1991 and end-March 1992. Quarterly floors for net official internatioanal reserves in 1991/92 have also been established.

14. In implementing its monetary and credit policies, the RBI uses both indirect, market-oriented mechanisms that operate through their effect on reserve money growth and commercial bank liquidity as well as the existing instruments that influence more directly the overall magnitude and composition of credit growth. In line with the overall thrust of financial sector liberalization, described in paragraph 32, the RBI intends to rely increasingly on indirect policy instruments. Therefore, interest rate policy will be used flexibly to manage the balance of payments and to achieve the desired deceleration in inflation. In particular, the RBI will act decisively to tighten monetary policy should net official international reserves fall below the targeted floors.

Pricing Policies

15. With a view to reducing budgetary subsidies and promoting a more flexible price structure, the Government recently announced increases in a number of administered prices including for important inputs (petroleum products and fertilizer); for services (such as railway fares); and for agricultural commodities (such as sugar). Beyond this, our pricing policies will aim at imparting greater flexibility in all areas, and public enterprices will be given greater freedom in setting prices according to market forces-a step that will need to be coordinated with the phasing of trade liberalization and the promotion of increased domestic competition. Detailed plans will be announced at the time of the first review.

16. Average domestic petroleum prices were increased by a cumulative 38 percent in 1990 and were not lowered again as world market prices fell in early 1991. Further price changes were announced at the time of the presentation of the 1991/92 Budget to Parliament: a 20 percent increase for motor spirit (gasoline), aviation fuel, and LPG for nonindustrail use; no change for diesel; a 10 percent reduction for kerosene for nonindustrial uses; and a 10 percent increase for

[1]*Net of the impact of exchange adjustments on the rupee value of aid receipts.*

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all other petroleum products. The reduction in kerosene prices reflects the importance of this item in the consumption basket of the poor and the Covernments determination to cushion the impact of the adjustment process on this segment of Indian society. On a weighted average basis, the price changes amount to a 7 percent price increase and are sufficient to ensure that, at prevailing world market prices total oil-related fiscal receipts [1]will not be reduced as a result of the recent exchange rate action. The accounts of the Oil Coordination Committee are now projected to record a small surplus. In line with the general policy described in paragraph 15, the Government intends to evolve a system for the pricing of petroleum products that provids for periodic adjustments in the light of developments in the world market and domestic supply conditions.

External Policies

17. An exchange rate policy that safe guards competitiveness is a crucial element of our economic programme. Shortly after the new Government assumed office, the RBI adjusted downward in steps the value of the rupee by 18·7 percent against the U.S. dollar in order to improve the international competitiveness of exposed and to bring about a n ore orderly compression of imports. This adjustment will help check the flight of capital, encourage the repatriation of outstanding export receipts and remittances, and thereby help to stabilize the balance payments. Following this realignment of the rate, the Government intends to hold the nominal effective exchange rate stable by relying primarily on monetary and fiscal policy to maintain competitiveness and ensure the balance of payments objectives.

18. The Covernment's stabilization and import compression measures are expected to reduce the external current account deficit to 2·7 percent of GDP in 1991/92. [2]Import volumes would decline by about 5 percent. while export earnings are expected to gradually resume the growth that was interrupted in 1990/91, in reflection of the improvement in competitiveness the resumption of exports to the Middle East, and better demand conditions in industrial countries. The capital account, however, is expected to deteriorate substantially in 1991/92 because of the curtailment in access to commercial capital markets and the outflow of nonresident deposits and short-term capital that took place during the first quarter of the fiscal year. As a result, despite the improvement in the current account. an exceptional financing need of about £4 billion is expected for 1991/92[3] Part of this amount (£870 million) has already been covered from various sources, including the recent CCFF drawing from the Fund. and exceptional assistance already disbursed by multilateral and bilateral creditors. The reminder of about £3 buillion is expected to be covered by a further CCFF drawing purchases under the stand-by arrangement, and by additional financing from multilateral and bilateral sources, including a Structural Adjustment Loan and two sector loans from the World Bank as well as additional quick-disbursing support from the Asian Development Bank and bilateral donors. A meeting of the aid donor's consortium is scheduled for mid-September.

19. The current acount deficit is expected to remain broadly unchanged in 1992/93, at 2·6 percent of GDP. Export growth is projected to continue its recovery (with an 11 percent volume increase) as a result of improved competitiveness and a further pickup of demand in world markets. However, imports are also expected to rise significantly (by about 7 percent in volume terms) from the low level of 1991/92 as the special import compression measures are removed. The capital account is expected to register a significant improvement (from a surplus of £2·8 billion in 1991/92 to about £4·4 billion in 1992/93) as a of a moderate reversal of the previous year's net outflow of nonresident deposits, some increase in normal net aid disbursements, and a reversal in net short-term flows. Given the need for a further restoration in official reserves, there would still be a need for exceptional financing from the Fund and other multilateral and bilateral creditors, but we estimate that the need (about £2·8 billion) would be considerably snaller than in the current year. A further sizable adjustment in the external current account will be needed over the medium term. The pace which India's external viability can be restored would depend, however, on how quickly access to normal commercial borrowing can be resumed. In this respect, the Government envisages that, in 1993/94-1994/95, covering the external financing gaps would continue to require some additional assistance frow multilateral, sources, including the Fund, as well as access to

[1]*Accruing to the Union Budget and the Oil Coordinatioa Committee.*
[2]*To 2·1 percent of GDP according to the official Indian definition.*
[3]*The size of the remaining compensable amount under the CCFF, and hence the size of the requested purchase, are larger than anticipated at the time of the discussion on the programme (SDR 468·9 million compared with an earlier estimate of SDR 314·4 million), under the programme the difference, amounting to £220 million, has been added to the targeted gross reserve accumulation, with a corresponding increase tal exceptional financing.*

financing from official bilateral and commercial sources. We also expect a significant expansion in foreign direct investment inflows as a result of the new policy measures discussed in paragraph 25. Our aim is to eliminate the need for exceptional financing by the mid-1990s.

20. The targeted build up in gross official reserves to about 1¼ months of imports at end-1991/92 and a little over 1½ months of imports at end-1992/93 would still leave reserves at a low level in compraison mith earlier years. Hence, India's external position will remain vulnerable to adverse shocks or to any unexpected slippages. Therefore, the Government will act quickly and decisively to correct any shortfall from the targeted path for reserve increase through a further tightening of monetary policy. The Government intends to pursue prudent debt management policies, and higher-than-anticipated commercial borrowings will be used for an additional rebuilding of reserves. Specifically, any unanticipated borrowing from commercial markets by the public sector will be matched by a corresponding increase in the floors for net official international reserves.

Social policies

21. The Government is aware that the process of macroeconomic adjustment is bound to be painful. All sections of the community have to make sacrifices to preserve our economic independence and to restore the health of the economy. Our endeavor would be to minimize the burden of adjustment on the poor. We are committed to adjustment with a human face; therefore, a steadfast adherence to the objective of poverty alleviation is an integral part of our conception of the adjustment process. We expect the structural reforms that have been initiated to gernerate long-lasting benefits in the reduction of poverty by promoting greatly increased employment opportunities. In the interim, any adjustment process that widened social and economic disparities would, in our view, be self-defeating. With this principle in mind, the Government has provided in the 1991/92 budget for higher outlays on elementary education, rural drinking water supply, assistance to small and marginal farmers, programmes for women and children, programs for the welfare of scheduled castes and scheduled tribes and other weaker sections of the society, as as for increased spending on infarstructure and employment-creation projects in the rural areas.

22. India continues to have a deep commitment to environmental conservation, drawn both from her ethos and traditions as well as her experience in the last two decades. We share the global concern for adverse environmental changes induced by economic and technological activities. Our commitments and concerns are reflected in our present and projected policies and legislation relating to air and water pollution control, forestry, and to conservation of natural resources, including wasteland and water resource development. We shall endeavor to obtain a greater quantum of peoples' involvement and association of non-goverment organizations in their implementation. The objective will be to attain ecologically sound and sustainable development.

Structural policies

23. Our adjustment strategy is predicated upon a comprehensive program of structural reforms that are designed to promote faster economic growth. The broad thrust of these reforms as well as the initial concrete policy measures are described below. In the areas of industrial deregulation, trade policy, public enterprises, and aspects of financial sector reform, we expect that policy changes already introduced, combined with further action to implement and strengthen policy reform, would also from the basis for World Bank support in the context of a structural adjustment loan.

24. While over the years a well-diversified industrial structure was established, barriers to entry and limits on growth in the size of firms led to a proliferation of licensing arrangemnts and an increase in the degree of monopoly. There was inadequate emphasis on reduction of costs, upgradation of technology, and improvement of quality standards. With a view to fostering increa sed competition between the firms in the domestic market so that there are adequate incentives for raising productivity and reducing costs, a major deregulation of the domestic industrial sector was introduced in the Industrial Policy a announced on July, 24, 1991. The thrust of the new policy is to enable entrepreneurs to take investment decisions based on their own commercial judgement with greatly reduced regulatory role of Government. These measures are complementary to those taken in the areas of trade policy, exchange rate management, fiscal policy and financial sector reforms.

The first stage of the reform was announced in July and includes the following key measures; :—

(i) Industrial licensing has been abolished for all projects except for a

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list of 18 industries related to security, strategic, or environmental concerns and certain items of luxury consumptions that have a high proportion of imported inputs. The exemption from licensing also applies to the expansion of existing units. Notifications spelling out of new procedures were issued on August 2.

(ii) The Monopolies and Restrictive Trade Practices (MRTP) Act will now be applied in a manner which eliminates the need to seek prior governmental approval for expension of present undertakings and establishment of new undertakings by large companies. The changes also apply to merger, amalgamation, and takeover. These changes will be introduced with immediate effect through appropriate administrative notifications under the Act.

(iii) The system of phased manufacturing programs, which required the progressive reduction in the import content of certain projects over time, has been discontinued for all new projects.

(iv) Industrial location policies have been streamlined so that only the 23 cities with a population of over 1 million (within a radius of 25 kilometers) will be subject to industrial location rules. Furthermore, these rules will not apply for specified non-polluting industries or in already designated industrial zones.

(v) The set of activities henceforth reserved for the public sector is now much narrower than before and there will be no bar to the remaining reserved areas being opened up to the private sector selectively.

Beyond this, it is the Government's intention to review the prior approval requirements that still exist for capital goods imports, with the aim of rapidly reducing thier scope. As a first step, all capital goods imports where foreign exchange availability for the imported equipment is assured through foreign equity have now been given automatic clearance Effective April, 1992, imported capital goods that represent less than 25 percent of a project's total plant and equipment costs will also be given automatic approval, up to a value of Rs. 20 million (about $800,000). The Government expects further liberalisation during the course of 1992/93.

25. In conjunction with industrial deregulation, the Government intends to provide greatly increased opportunities for foreign investment. Such investment would bring the attendant advantages of technology transfer, marketing expertise and the introduction of modern managerial technique as well as promoting a much-needed shift in the composition of external private capital inflows towards equity and away from debt-creating flows. In addition, restrictions on technology agreements will be relaxed. With these broad objectives in mine, the following steps have already been announced.

(i) Automatic approval will be given for direct foreign investment up to 51 percent foreign equity onwnership in a wide range of approved industries. Previously, all foreign investment was subject to approval and foreign equity participation was generally limited to 40 percent.

(ii) Other foreign equity proposals will continue to need prior clearance but procedures will be streamlined and made more transparent. A special empowered Board will be established to negotiate with large international firms that would provide access to high technology and world markets.

(iii) Automatic permission will be given for foreign technology agreements in the list of industries referred to in item (i) for royalty payments of up to 5 percent of domestic sales or 8 percent of export sales or for lump-sum payments of up to Rs. 10 million (about $400,000). Automatic approval for all other royalty payments will also be given if the projects can generate internally the foreign exchange required. All other payments will continue to require approval under existing procedures.

The necessary changes in the application of the Foreign Exchange Regulation Act (FERA) will be introduced by end-October through administrative notifications. It is our intention to explore further options for attracting foreign direct investment and technology.

26. As part of our strategy to promote the international integration of our economy, it is necessary to phase out the excessive and often indiscriminate protection provided to industry which has weakned the incentive to develop a vibrant export sector. An important element of this strategy will be transition from a regime of quantitative restriction to a price-based system. Our medium-term objective is to progressively eliminate licences and quantitative restriction. especially for capital goods and raw materials so that these items could be increasingly placed on open general license. The shift is proposed to be achieved over a period of three to five years. A high-level committee will work out the modality of achieving this transition, keeping in mind the balance of payments

position, in order to provide Indian industry with an appropriate environment to develop international competitiveness. Based on the Committee's recommendations, we will formulate policy proposal by the time of the 1992/93 budget. (*See* also paragraph 34).

27. The first step in rationalizing the trade regime was implemented in July. Cash export subsidies were eliminated at the time of the exchange rate adjustment and an expanded system of import entitlements, linked to export earnings, has replaced a large part of the administered licensing of imports. The new entitlements, called EXIM scrip, are generally provided at a rate of 30 percent of gross export earnings (with special arrangements for gems, jewelry, and a few other industries), and are freely tradeable, the premium on the scrip, set in the market, represents a further incentive for exporters and a means of allocating imports according to market forces. The arrangement is intended as a transitional one that will serve as a vehicle for further trade liberalization through expansion of import entitlements in the next several years, and it is our intention to administer the system in a manner that prepares Indian industry for more uniform set of incentives.

28. In addition to the trade reform measures already taken, the Government plans additional action along the following lines:—

(i) Greater transparency will be introduced into the trade regime through the adoption, from September 1, 1991, of a harmonized system of customs classification.

(ii) A high priority will be the earliest possible elimination of the temporary exchange restrictions imposed earlier in the year in response to the foreign exchange crisis—including the limitations on the availability of foreign exchange for capital goods imports, the prior approval by the RBI for certain foreign exchange transaction exceeding specified amounts, and the high cash margin requirements (ranging up to 200 percent) on letters of credit. The first priority will be to eliminate the restrictions that affect exporters. Recently, the RBI has reduced the cash margins on imports by certain exporters and has also relaxed prior approval requirements for exporters. A timetable for eliminating any remaining restrictions will be discussed at the time of the first review.

(iii) Over the years, a number of import and export items had to be exclusively channelled ("canalized") through specified public sector agencies. It has now been decided to reduce sharply the scope of this public sector monopoly, including most export items and significant number of import items. The Government recognizes that there is a strong case for freeing trade in more items, especially imports of raw materials. Therefore, additional items will be progressively decanalized, for this purpose, a further reivew of the remaining items will be made in March 1992 and a suitable decision taken with effect from April 1, 1992.

(iv) Actual user requirements, which require that imports be undertaken by the final users, have already been relaxed as a result of the EXIM scrip scheme. Proposals for the removal of the remaining requirements will be formulated.

(v) The 1991-92 Budget began the process of tariff reform, with a reduction in peak tariff rates to a maximum of 150 percent (from as much a 300 percent or more) and a moderate across-the-board reduction in tariffs on capital goods imports. A More broad-based effort to streamline and reduce tariff rates will be proposed in the 1992-93 budget.

29. The public enterprise sector has not generated internal surplus on a large enough scale and, because of its inadequate exposure to competition, has contributed to a high-cost structure. To address these problems, the Government has decided to adopt a new approach, key elements of which will be:(1) the existing portfolio of public investments will be reviewed with a greater sense of realism to avoid areas where social considerations are not paramount of where the private sector would be more efficient; (2) enterprises in areas where continued public sector involvement is judged appropriate will be provided a much greater degree of managerial autonomy ; (3) budgetary transfers to public enterprises will be progressive reduced; (4) to provide further market discipline for public enterprises, competition from the private sector will be encouraged and part of the equity in selected enterprises will be disinvested ; and (5) chronically sick public enterprises will not be allowed to continue incurring heavy losses.

30. Several important measures initiating the new strategy have already been taken. (1) The number of industries reserved for the public sector has been reduced from 17 to 8. Even in these areas, private sector participation will be allowed selectively. Thus, joint ventures with foreign companies in oil exploration and production are now possible.

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(2) Public enterprises that are chronically sick and unlikely to be turned around will be referred to the Board for Industrial and Financial Reconstruction (BIFR) for rationalization. We expect to have the new procedures in place by end-December 1991. A safety net will be created to protect the interests of workers. (3) The existing system of monitoring enterprises through Memorandam of Understanding (MOU) will be strengthened, with primary emphasis on profitability and the rate of return on capital. (4) Up to 20 percent of government equity in selected public sector enterprises will be disinvested through mutual funds. The objective is that the mutual funds would seek a listing for the shares on the stock marketing and would have the freedom to dispose of them after a specified time period. Additional sales are expected in 1992-93, by which time proposals for encouraging broader disinvestment option could also be developed.

31. Appropriate exit policies are needed to capture the efficiency gains from policy reform and, at the same time, it is imperative that workers should be protected from the adverse impact of the adjustment process to the maximum extent feasible. Keeping in view the need for a rapid improvement in the efficiency of the economic system and of preserving social cohesion, so vital for ensuring political and social acceptability of the adjustment process effort is under way to formulate a policy that would facilitate the process of industrial restructuring, including a suitable framwork for reducing barriers to exit. This process will take some time since it will be essential to build the political consensus necessary for ensuring durability of policy reform. We expect that specific policies in this area will be formulated by the time of the submission of the 1992-93 budget to Parliament. An important component of these policies is the establishment of a National Renewal Fund (NRF) introduced in the 1991-92 budget. The (NRF) will provide a social safety net to protect workers from the adverse consequencies of adjustment and technical transformation, most importantly through the provision of retraining so that they are in a position to remain productive participants in economic activity. We visualize the NRF also being supported by contributions from the States and the private sector. It is also intended to stregthen the Board for Industrial and Financial Reconstruction (BIFR), which was established in 1987 to recommend action—rehabilitation, merger, or exit—for private sector firms with negative net worth and meeting certain eligibility requirements ; in addition, its scope will be widend to include public sector units:

32. Far as the financial system has come in terms of market widening and deepening, there remain a number of structural rigidities—notably related to interest rates and the allocation of credit—that have contributed to inefficient financial intermediation. Important measures have been taken recently to address these problems, particularly on the side of liberalizing interest rates. Thus, bank lending rates of larger loans have been set free., the short-term money market has been allowed to function without hindrance, interest ceiling on loans by term-lending institutions have been abolished. and all restrictions on private debentures interest rates have been eliminated. These steps, implying an elimination of controls at the short and long end of the maturity spectrum, have made for a considerably more flexible structure of interest rates. While the process of interest rate liberalization will be continued over the next 18 months, the Government will focus attention on three other key priorities: a promoting more market-oriented allocation of credit, implementing policies to further the development of capital markets, and enhancing the soundness of the banking system. The recently constituted Committee on the Financial System (Narasimhan Committee) will formulate detailed recommendations in these areas. In addition, the Committee has been requested to make recommendations relating to banks and term-lending financial institutions specifically on (a) their organizational structure, (b) composition and adequacy of the capital structure, and (c) supervisory arrangements. The Committee has been asked to submit its proposals by November 15, and it is the intention of the Government to spell out a timetable for implementation by the time of the first review. Beyond this, as the process of fiscal consolidation takes hold, bank profitablity can be expected to improve, thus setting the stage for the extension of intere st rate liberalization to bank deposits as well as for a phased reduction, beginning in 1992-93, in the statutory liquidity requirement, under which banks must presently hold selected government and other public sector securities against 38½ percent of their deposits.

33. To continue the process of developing more competitive capital markets, the Government has decided to promote the development of private sector and joint-venture mutual funds; a comprehensive set of policies and guidelines that will apply equally to both public and private sector mutual funds is being developed. The Government also intends to introduce legislation in the forthcoming winter session of Parliament that would allow the

Securities and Exchanges Board of India to function as an autonomous body with full statutory powers to regulate equity markets Two expert committees have also been established to examine the question of trading reforms and institutional improvement of the stock exchanges.

34. In order to make the tax system more elastic, broaden the base of taxation, reduce its dependence on customs revenue, and simplify the existing procedures, the Government intends to implement a major tax reform over the next few years. The major emphasis will be on increasing the share of revenue from direct taxes, so that resources are raised from those most able to pay; rationalizing domestic indirect taxes including further expansion in the existing MODVAT system, and reducing the level and dispersion of import tariffs. The time availalble for the new Government before presenting the 1991-92 budget was simply not enough to formulate basic structural changes, but several measures were adopted consistent with our medium-term strategy. Thus, peak import tariffs were reduced and major efforts were made to strengthcn tax compliance, including a much increased role for deduction of tax at source. Beyond this, the Government will appoint a committee of experts to prepare a study advising how best our agenda of tax reform can be pursued. The first steps of the tax reform will be introduced in the 1992-93 budget.

Table 1. India: Performance Criteria for Domestic and Financial Policies in 1991-92 *and Indicative Targets for* 1992-93

	Prel. Actual End-July	Performance Criteria, 1991-92 End-Oct. 1991	End-Dec. 1991	End-Mar. 1992	Indicative Targets 1992-93 End Mar. 1993
		(*In billions of rupees*)			
Domestic sector (ceilings)					
Overall borrowing requirment of the Union Government[1] . . .	160[2]	275	305	390[2]	325[2]
Net domestic assets (NDA) of the RBI [3]	818.7	865.6	899.1	943.5	1,048
Of which Net Credit to Union Government . . .	973.4	987.6	987.6	955.6	1,018
	(*In million of U.S. dollers*)				
External sector (floor)					
Net official international reserves [4] .	—1,131	—943	— 1,156	— 1,195	—703
	(*In billions of rupees*)				
Memorandum item:					
Indicative target (ceiling) for bank credit to general Government[7] .	1,535	1,546	1,564	1,551	1,675

1. *Cumulative from March* 31 *of the previous financial year.*

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2. *End-June figure.*
3. *The ceiling for end-March 1992 will be raised (lowered) by the excess (shortfall of the OCC surplus from Rs. 8 billion.*
4. *Including projected OCC surplus.*
5. *The ceiling will be adjusted for (i) unexpected valuatiom effects arising from changes in exchange rates and the price of gold; (ii) changes in reser requirements; and (iii) changes in the net international reserve floor arising from factors describes in footnote 6 below.*
6. *The floors will be adjusted upward (downward) to the extent that gross commercial borrowing by or guaranteed by the public sector (medium and long-term borrowing from commercial banks plus bond issues to foreigners plus any change in the short-term external debts of the State Bank of India) plus exceptional financing exceeds (falls short of) $ 5590 million for the period August 1—October 31, 1991, 5840 million for the period August, 1—December, 31, 1991, and 51,484 million for the period August, 1, 1991—March, 31, 1992. However, the downward adjustments in the floors will be limited to no more than $ 5300 million by October 31, 1991, $ 5200 million by December, 31, 1991, and 5 $ 400 million by March, 31, 1992. The floors will also be adjusted upward (downwards) by any increase (decrease) in foreign exchange deposits held by the RBI with the State Bank of India from the level of $ 5600 million.*
7. *General Government comprises the Union Government, the States, and Union territories.*

Table 2. India Key Macroeconomic Objectiaes, 1991-92— 1992-93

(In percent unless otherwise indicated)

	1990-91	1991-92	1992-93
	Est.	Programme	
Real GDP growth	5	33..	4
Inflation (end period)	12.1	9	9
Over all public sector deficit/GDP	12.5	10.0	8.5
Union Government deficit/GDP	9.0	6.5	5.0
Broardmoney growth	15.3	13 0	11.12
Reserve money growth	13.1	15.51	11.12
External current account/GDP	3.4	2.7	26
Gross official reserves (in months of imports)[2]	1.3	1.3	1.7
Official foreign exchange reserves (in billions of U.S. dollars)	2.2	2.2	3.2

1. Excluding the impact of the incremental cash reserve ratio, reserve money growth would be 13 percent.
2. According to the IMF definition, i.e. including SDR holdings and gold valuedat SDR 35 per ounce.

5.00 P.M. **(The Vice-Chairman (Dr. Nagen-Saikia) In the Chair)**

श्री जगदीश प्रसाद माथुर (उत्तर प्रदेश) : सर, मेरा परपोजल यह है कि यह बहुत लंबा स्टेटमेंट है और जब तक हम पढ़ न लें, क्लेरिफिकेशन नहीं कर सकते। इसलिए कल होना चाहिए।

डा० रत्नाकर पाण्डेय (उत्तर प्रदेश) : उपसभाध्यक्ष महोदय, इस पर चर्चा होनी चाहिए, केवल क्लेरिफिकेशन नहीं। मैं सदन से मांग करता हूं कि सरकार की अर्थ-व्यवस्था की नई नीति के तहत छह महीने के बाद जो कुछ सरकार ने आर्थिक सुधार में और जो बैंककरप्सी की स्थिति हो गई थी आर्थिक क्षेत्र में, उस पर एक वक्तव्य माननीय वित्त मंत्री जी ने दिया कि यह सुधार हुए हैं या आगे करने हैं, तो मेरी मांग है सदन के सदस्य के रूप में, आपके माध्यम से, कि इस पर पूरी चर्चा हो ताकि हर दल के सदस्य अपने विचार प्रकट कर सकें, केवल क्लेरिफिकेशन तो इस ठोस वक्तव्य का मजाक, मैं समझता हूं, होगा। (व्यवधान)

SHRI VISHVJIT P. SINGH (Maharashtra) : I agree.. *(Interruptions)*

SHRI JAGESH DESAI (Maharashtra): Sir, clarifications must be there ....(*Interruptions*)...Clarifications should be there ....(*Interruptions*)

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : If the House so desires:, we shall take it up tomorrow ....(*Interruptions*)....

DR. G. VIJAYA MOHAN REDDY (Andhra Pradesh) : Sir, without reading it, how can we discuss it ? ....(*Interruptions*)..... Without reading it, how can we ask for clarifications ? ....(*Interruptions*)....

डा. रत्नाकर पाण्डेय : सर, सारे सदन के माननीय सदस्यों का विचार है कि इस पर पूरी बहस होनी चाहिए और सरकार की अर्थ-नीति पर हम सदस्यगण आलोचना, प्रत्यालोचना और उसकी अच्छाइयों का बखान कर सकें और कुछ नए सुझाव दे सकें।

(व्यवधान)

श्री राम नरेश यादव (उत्तर प्रदेश) : महोदय, यह बहुत ही लंबा वक्तव्य है ...(व्यवधान)...

DR. G. VIJAYA MOHAN REDDY : Without reading it, we cannot ask for any clarifications .... (*Interruptions*)....

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : Just a minute.... (*Interruptions*)....I have taken note of the sentiments of the honourable Members.... (*Interruptions*)....

SHRI ARANGIL SREEDHARAN (Kerala) : Sir, this is a lengthy statement.... (*Interruptions*).... and this cannot be completed today .... (*Interruptions*)....

SHRI GURUDAS DAS GUPTA (West Bengal) : Sir, I would suggest that it should not be in the form of questions to the Minister fo rhis elucidation....(*Interruptions*)....It should be in the form of a full-fledged discussion on the basis of the report that the honourable Finance Minister has placed. It needs a full discussion.... (*Interruptions*)....Therefore, time should be allotted for that in that way.

PROF. CHANDRESH P. THAKUR (Bihar) : Sir, I am on e point of order.... (*Interruptions*)....

SHRI G. SWAMINATHAN (Tamil Nadu) : Sir, I have a point of order.... (*Interruptions*)....

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : Just a minute, please. Mr. Thakur is on a point of order....(*Interruptions*)....

SHRI G. SWAMINATHAN : No, Sir. I am ahead of him. I raised my hand earlier. Sir, as per the rules and conventions of this House, when a statement is made by a Minister, clarifications are sought in this House whereas in the other House no clarification is sought. There he simply presented the statement. Now, apart from the precedents that we have, we are trying to convert every statement into a discussion. We have now only four or five days left and we have got a lot of work to do.... (*Interruptions*)....It is the convention ofthe House that we seek clarifications. At least, some of us are prepared to seek clarifications....(*Interruptions*)....

DR. RATNAKAR PANDEY : We want a full discussion even if we have to sit the whole night..... (*Interruptions*)....

SHRI G. SWAMINATHAN : We are also prepared to sit late. But we want clarifications .... (*Interruptions*)....

PROF. CHANDRESH P. THAKUR : First, let me go on record that we compliment the Finance Minister to have come up with a detailed statement. That shows the transparency in the management of the economy of this country. He had promised that he would bring before the House the understanding with the IMF and he would lay before the House all the statements in regard to that.

The right of the House is to seek clarifications . That does not cancel the possibility of a Short Duration Discussion if the Government agrees. I wish to submit that the clarifications can go as usual, and if the whole system of clarifications is inconclusive there should be a Short Duration Discussion.

SOME HON. MEMBERS : No clarifications today.

SHRI MURLIDHAR CHANDRAKANT BHANDARE (Maharashtra) : While associating myself with the compliments paid by Professor Thakur to the hon. Finance Minister, I submit that this is one of the most important subjects. It is a matter of regret that we do not have sufficient time to discuss that most important subject. Everything goes by priority. And I think the economic situation should get top priority. I think there should be a via media because we have a large number of precedents where while asking clarifications Members have exceeded their time-limit a little and also asked clarifications. Now I request the hon. Vice-Chairman that in view of of the lengthy statement let the clarification come tomorrow, so that we do not have to wait for a Short Duration Discussion, because even important matters in a Short Discussion are not discussed at all and it remains only on paper day after day. So tomorrow at 5 O'clock we can have it and sit till midnight, if necessary, to complete it.

SHRI PRAKASH YASHWANT AMBEDKAR (Nominated) : In the last line of the statement mentions that they would provide detailed arrangements we have concluded with the IMF. There were apprehensions in the House as to what would be the conditions. Therefore, a time for discussion should be given for that.

THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS AND THE MINISTER OF STATE IN THE MINISTRY OF HOME AFFAIRS (SHRI M.M. JACOB) : Many Members have expressed their desire. There are two things which have emerged. one is to have clarifications, tomorrow. Another is that we must find some other time also for discussion. I think in a way both the views converage on one. Since the statement is lengthy, the clarifications can be postponed till tomorrow. Whatever may be the form, we can discuss it separately not now.

SOME HON. MEMBERS : Correct.

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : I have had the sense of the House. Tomorrow we have an important business, that is, discussion on public sector undertakings. So we shall have to decide whether we would like to take up a discussion on public sector undertakings. If you desire, we can take up clarifications at 5 O'clock and the discussion on public sector undertakings will come up later on. Okay ? The Finnance Minister has made the statement. We shall take up the matter tomorrow as the House desires.

डा० रा कर पाण्डेय : भारत की अर्थ-व्यवस्था के सुधार के लिए हम लोग रात भर भी बैठ सकते हैं। इसको रा इटली टेक-अप न किया जाए, इस पर पूरी बहस होनी चाहिए। ... **(व्यवधान)**...

श्री सुरेन्द्रजीत सिंह अहलुवालिया (बिहार) : उपसभाध्यक्ष महोदय, यह इकॉनमिक पालिसी की मैनेजमेंट का सवाल है, पहले यह ... **(व्यवधान)**...

SHRI JAGDISH PRASAD MATHUR: I tend to agree with Mr. Bhandare and Mr. Thakur that better purpose will be served if we postpone it till tomorrow. If we enter into a sort of discussion, normally it goes astray and things remain undiscussed. My party feels that it is better if we can have ....

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : So we keep the clarifications tomorrow, and then we shall adjust tomorrow's business.

SHRI MURLIDHAR CHANDRAKANT BHANDARE : At what time? Announce the time .

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : After the Question Hour. We shall take up these clarifications first, and then other business shall be adjusted accordingly. So, we are taking up these clarifications tomorrow. Then we shall adjust tomorrow's business accordingly. (*Interruptions*).

SHRI GURUDAS DAS GUPTA : Mr. Vice-Chairman, Sir, what is your decision? Tomorrow after the Question Hour?

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : Yes.

SHRI GURUDAS DAS GUPTA : Sir, in the Business Advisory Committee meeting, we have decided a separate discussion for tomorrow.

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : That I know. I have taken the sense of the House. The House desires that this should be taken up tomorrow. Therefore, we shall take up this..

SHRI GURUDAS DAS GUPTA : Sir, the Prime Minister is supposed to reply on the Public Sector. How can it be done after this ? (*Interruptions*). Sir, the Government were present and they were of the opinion that the Prime Minister will be present to reply to the debate on the Public Sector. If we take up this discussion first, then how can we finish that tomorrow ?

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : Therefore, I put the question before the House whether we should take up this matter of clarifications first or the discussion on the Public Sector. The House desires that the clarifications should be taken up first.

AN HON. MEMBER : Both will be tomorrow.

THE VICE-CHAIRMAN (DR. NAGEN SAIKIA) : It will be taken up tomorrow, and the time will be adjusted accordingly.

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